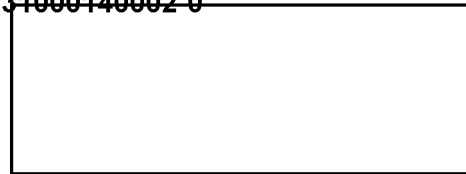




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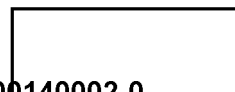


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National Intelligence Daily (Cable)

23 January 1979

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PALESTINIANS: Assassination

Palestinian officials have charged that the assassination yesterday of Ali Hasan Salamah, a high-level Fatah security official, was the work of Israel and "allied interests." They have denied that the killing was tied to a recent upsurge of feuding among Palestinians. Salamah's death is likely to set off a new round of killings no matter who was responsible.

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//Both the Marxist-oriented Democratic Front for the Liberation of Palestine and the Iraqi-backed Black June have been feuding with Fatah [redacted] and Black June was reported late last year to have targeted several Fatah officials for assassination. [redacted]

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The Israelis have made no secret of their desire to kill Salamah; they believe he masterminded several terrorist operations including the massacre of Israeli athletes at the Olympics in Munich in 1972. The Israelis have also been concerned by the recent upsurge of terrorism in Israel--for some of which Fatah has claimed credit--and last week Israeli Chief of Staff Eitan vowed that the armed forces would hit back at terrorists "with all ways and means."

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//Salamah, known as Abu Hasan, was a longtime friend of Palestine Liberation Organization chief Arafat and

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CHINA: Allocation of Grain Imports

Chinese grain imports during 1979 are likely to exceed the 10 million to 11 million tons China projects to be its annual needs over the next few years. China is seeking about half its grain import needs in the US and will buy the rest from its long-time suppliers--Canada, Australia, and Argentina.

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The Chinese appear to be favoring multiyear trade agreements to guarantee desired amounts of wheat. China signed a three-year agreement with Argentina last year that covers the shipment of 800,000 tons of grain annually for the period 1979 to 1981. It signed a three-year agreement, probably for 2.5 million tons of wheat per year, with Australia last weekend. It also is negotiating a multiyear wheat purchase agreement with Canada that we expect would maintain Canada's share of 3 million tons a year. Canadian plans to acquire more rail cars, improve railroads, and expand terminals on its west coast are aimed at increasing exports in the long term and are not likely to have much short-term impact on exports. Any further expansion of Canadian grain exports to China during the next few years would require a corresponding decrease in exports shipped from the west coast to other customers.

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China's record grain imports of 9.7 million tons last year were the result of three years of level grain production (1975 to 1977) that probably resulted in a drawdown of stocks, a decision to allow local units to retain larger portions of production as an incentive to increase agricultural investment, and a planned rise in living standards.

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NAMIBIA: South African Response

South African Foreign Minister Roelof Botha yesterday informed the five Western sponsors of a Namibia settlement that South Africa has provisionally accepted a target date of 26 February for a UN transitional assistance group to begin deployment in Namibia. Martti Ahtisaari, UN Secretary General Waldheim's special representative for Namibia, has told Western envoys that during his visit to Namibia and South Africa last week he cleared up most of the procedural problems that had blocked implementation of the UN independence program. Botha implied, however, that the South Africans still intend to press the Secretary General for assurances on several provisions of the UN plan that Ahtisaari was not authorized to negotiate--such as which nations would provide contingents for a UN military force and the date for a UN-sponsored election in Namibia. South Africa's acceptance of an early date for starting the UN operation is evidently intended to defuse international pressure for UN sanctions against South Africa while the South Africans continue hard bargaining with the Secretary General.

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[REDACTED]

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SPECIAL ANALYSIS

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IRAN: Paralyzed Economy

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[REDACTED]

There is no assurance that Iranian workers will heed calls by either the country's religious leaders or the government of Prime Minister Bakhtiar to return to their jobs. No government can lay out any concrete economic program until a measure of political stability returns. Even then, Iran will face a period of severe economic austerity at a time when inflation will be further aggravated by shortages and rising demand caused by the recent salary hikes.

[REDACTED]

The economy is in disarray after months of demonstrations and strikes throughout the public and private sectors, and there is no prospect for an early return to normal conditions. The principal economic ministries are barely functioning, the Central Bank is providing only the most rudimentary services, oil production stands at less than 10 percent of normal, and an estimated 80 percent of industrial establishments outside the petroleum sector may still be shut down.

[REDACTED]

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The economic bureaucracy will continue to lie low until it receives explicit directions. The Commerce Ministry and the Plan and Budget Organization are without ministers and have only a few senior personnel reporting to work. The Ministry of Economic Affairs and Finance has a newly appointed chief--Rustan Pirasteh, a former senior vice president of a major US bank with headquarters in New York--but some other senior personnel in the Ministry have left the country.

[REDACTED]

At the Central Bank--which had been shut down since 25 November--only about one-third of the staff has returned to work and those who have showed up have not done much. Central Bank employees have refused to touch any transaction involving military purchases, which may affect payment for military items from the US.

[REDACTED]

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Oil workers were reported responding to the mediation efforts of the leader of the Liberation Movement of Iran, Mehdi Bazargan, who is acting as Ayatollah Khomeini's emissary to them. Production of crude oil, however, has increased only slightly--to just over 500,000 barrels per day. The refineries that were closed down in late December have now reopened but are not operating at full capacity. Refinery output probably is sufficient to provide somewhat more than half of domestic requirements.

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Almost all of the major industrial facilities--except for food processing and pharmaceutical plants--were shut as of 10 January. The shutdowns were caused by a lack of fuel and transportation, shortages of imported producer goods, and, in a few cases, labor problems. The Esfahan steel plant, which accounts for the bulk of Iran's domestic steel production, is threatened with a prolonged shutdown because it has not received deliveries of coke to fire its ovens.

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it could take a year or more to resume production if the coke oven fires have been extinguished. Other steel plants, including the important gas-fired facility at Ahwaz, have ceased operations because their natural gas has been cut off.

Many industrial enterprises have continued to pay their employees in the hope they could soon resume production, but high overhead and a lack of income are draining cash and may force them to stop. Even when production does resume, full recovery will be a long-term process for some firms and just about impossible for marginal producers. In the interim, many firms are likely to pare operations or go out of business; large numbers of workers would then become jobless and the ranks of the urban dissidents would increase.

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Organized labor, a new phenomenon in Iran, almost certainly will be a potent force in the future now that workers have learned to use their economic and political power. Although most workers still appear responsive to the direction of religious leaders, labor may well split into factions and thus encourage radicals to attempt to expand their influence.

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Khomeini's vision of an Islamic republic in Iran does not yet include specific economic plans. The religious leader says he is not opposed to modernization-- but his economic program clearly would be considerably less growth-oriented than the Shah's. He has asserted that experts in his entourage are capable of dealing with economic issues and, in response to reporters' inquiries, has expounded some vague economic policy goals that an Islamic government would pursue. [REDACTED]

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These include:

- Economic policies that are independent of foreign companies operating in Iran. [REDACTED]
- Agricultural self-sufficiency based on a new land reform that would return to the religious establishment lands "usurped" by the landlords or the government and give to the poor those lands for which owners have not paid "Islamic" taxes. [REDACTED]
- An oil policy designed to earn Iran maximum revenues and maximum political advantage, but no exports to Israel or South Africa. [REDACTED]
- Revision of the banking system, to eliminate interest charges. [REDACTED]

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Khomeini would be willing to see Iran accept foreign assistance, if necessary, but only as long as it does not "jeopardize Iran's independence." [REDACTED]

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